

Message Text

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ACTION SS-25

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O 021210Z MAY 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC NIACT IMMEDIATE 3048

AMEMBASSY NAIROBI NIACT IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 5943

EXDIS

NAIROBI FOR SECRETARY AND DEPSEC ROBINSON

E.O. 11652: GDS

TAGS: ECON EG US OVIP (ROBINSON, CHARLES W.)

SUBJECT: VISIT OF DEPSEC ROBINSON -- MEETING WITH MINISTER OF
FINANCE

SUMMARY. DURING MAY 1 MEETING WITH MINFINANCE ABU ISMAIL,
DEPSEC ROBINSON EXPLAINED HIS EFFORTS ON BEHALF OF EGYPT
SINCE HIS LAST VISIT, INCLUDING CONTACTS WITH FRG
CHANCELLOR SCHMIDT, IRANIANS, FRENCH, BRITISH, JAPANESE
AND SAUDIS. HE HAD FOUND GENERAL WILLINGNESS TO CONTINUE
TO HELP, BUT ALL WERE AWAITING CONCLUSION OF AGREEMENT
WITH IMF AS INDICATION OF GOE'S WILLINGNESS TAKE HARD
DECISIONS NEEDED BRING ABOUT ECONOMIC STABILITY. ONCE
IMF AGREEMENT CONCLUDED, USG PREPARED MAKE FURTHER
CONTACTS WITH DONORS TO SOLICIT ADDITIONAL ASSISTANCE.
ABU ISMAIL EXPRESSED APPRECIATION FOR DEPSEC'S EFFORTS
AND OPINED LAST YEAR'S ARAB HELP DUE LARGELY TO OUR
EFFORTS. HE WAS CONFIDENT DEPSEC WILL AGAIN SUCCEED.
ASSERTING IMF REQUIREMENTS HAVE LARGELY BEEN MET,
HE DESCRIBED SHIFT FROM OFFICIAL TO PARALLEL MARKET
OF 60 PERCENT OF EGYPTIAN IMPORTS FOR 1976. THIS WILL
MEAN PRICE RISE FOR MIDDLE CLASS. SINCE \$2 BILLION
ARAB FUND ESTABLISHED IN RABAT PALTRY AND TOTALLY
INADEQUATE, HE URGED DEPSEC PERSUADE ARABS BE MORE
GENEROUS. POSSIBLE IRANIAN BANK GUARANTEE HAD BEEN
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RAISED BY VP MOBAREK WITH SHAH, WHO HAD AGREED. HOWEVER,

THIS WILL AT BEST BRING COMMERCIAL CREDIT ON ONLY SLIGHTLY MORE FAVORABLE TERMS; WHAT GOE NEEDS IS CONCESSIONAL LOANS. DEPSEC INDICATED CHASE PREPARED ARRANGE BANK CONSORTIUM TO PARTICIPATE IN STANDBY LOAN BASED ON IRANIAN GUARANTEES. IN RESPONSE DEPSEC'S QUARY RE TWA/PANAM TRANSFERS ON SAME BASIS LUFTHANSA WAS ALLOWED CONVERT EGYPTIAN POUND HOLDINGS, ABU ISMAIL INDICATED ALL AIRLINES AS OF MAY 1 WILL BE TREATED EQUALLY IN BEING ALLOWED CONVERT POUND HOLDINGS FOR EXCHANGE ON PARALLEL MARKET FOLLOWING APPROVAL 12.5 PERCENT IATA SURCHARGE. FORMULA WOULD BE FOUND WHEREBY AIRLINES WILL NOT SUFFER LOSSES. END SUMMARY.

1. DURING CALL DEPSEC ROBINSON, ACCOMPANIED BY AMBASSADOR AND MINISTER-COUNSELOR MATTHEWS, ON MINISTER OF FINANCE, AHMAD ABU ISMAIL AT MINSITER'S OFFICE IN CAIRO ON MAY 1, FOLLOWING SUBJECTS DISCUSSED

2. ARAB FUND: ABU ISMAIL DESCRIBED JUST COMPLETED ARAB FINMINISTERS TALKS IN RABAT. THEY HAD COVERED SAME MATERIAL DISCUSSED DURING EARLIER MISSION TO RIYADH. NET RESULT WAS ANNOUNCEMENT OF 2 BILLION DOLLAR FUND TO BE AVAILABLE TO EGYPT OVER NEXT FIVE YEARS. HE DESCRIBED SMALLNESS OF FUND AS "VERY SHAMEFUL" AND TOTALLY INADEQUATE FOR EGYPT'S NEEDS. MOREOVER, THERE STILL CONDITIONS RE USE OF FUND WHICH MUST BE WORKED OUT. HE PROFESSED HAVE NO IDEA WHEN THESE CONDITIONS WOULD BE SET.

3. ABU ISMAIL REPATEDLY STRESSED FUND WOULD NOT FULFILL ITS PURPOSES. IN HIS VIEW, FUND SHOULD HAVE ABILITY TO RAISE LOANS, PERHAPS USING MONEY AS QUARANTEES FOR BANK LOANS. THIS WOULD BE ONE WAY OF COMPENSATING ITS INSUFFICIENCY. GIVEN PALTRYNESS OF FUND, ABU ISMAIL ASSERTED, EGYPTIAN PEOPLE ARE NOT SATISFIED. HE PROFESSED BE UNABLE UNDERSTNAD ARAB POSITION, NOTING THAT IN RIYADH, HE HAD PUT EGYPT'S REQUIREMENTS TO ARAB FINMINISTERS USING LATEST IBRD FIGURES. ABU ISMAIL EMPHASIZED GOE DOES NOT WANT GRANTS, IT WANTS CONCESSIONARY LOANS WHICH IT WILL BEGIN REPAYING STARTING IN 1980. REPAYMENT
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WOULD BE FROM FUNDS GENERATED BY EXPORTS WHICH PROJECTS, WHICH HAD BEEN FINANCED BY ARAB LOANS MIGHT CREAT.

4. AGAIN ALLUDING TO INADEQUACY OF \$2 BILLION ARAB FUND, ABU ISMAIL SAID FUND SHOULD BE A POLITICAL FACTOR BECAUSE IT GIVES EGYPT SECURITY TO CONTINUE PEACE POLICY. WITHOUT IT, IT IS USELESS TO CONTINUE. ABU ISMAIL ASKED WHERE EGYPT IS TO GET ITS REQUIREMENTS MEET

ITS NEEDS? PREVIOUSLY MASSES WERE COMPLAINING BECAUSE OF RISE IN PRICES; NOW EVERYONE SHOULD REALIZE THAT MIDDLE CLASS WILL BEGIN TO COMPLAIN BECAUSE PRICES FOR THEM WILL RISE AS RESULT SHIFT TO PARALLEL MARKET. IN ADDITION, TAXES AND CUSTOMS DUTIES WILL INCREASE MAY 1. IN ORDER STOP CRITICISM, GOE MUST BRING ENOUGH GOODS TO THE MARKET TO SATISFY PEOPLE. THIS WILL MEAN FURTHER IMPORTS AND FURTHER LIQUIDITY SHORTAGE. CITING CURRENT LIQUIDITY SHORTAGE, ABU ISMAIL SIAD THAT EVEN NOW EGYPT HAD HAD TO DIVIDE 1976 PLAN INTO TWO HALVES; IT CANNOT MEET SECOND HALF AS RESULT OF LOW FUNDING WHICH ARABS HAVE GIVEN. HE ASKED RHETORICALLY WHAT WILL HAPPEN IN NEXT TWO YEARS WHEN NEEDS WILL INCREASE BOTH FOR SHORT TERM LOAN REPAYMENTS AND TO BUILD NECESSARY INFRASTRUCTURE. HE NOTED THAT COMMUNISTS ARE INCREASING THEIR ACTIVITY IN EGYPT AND ARE PROVIDING LEFT-WING ELEMENTS WITH MATERIALS. TO COUNTER THESE EFFORTS, EGYPT NEEDS MORE MONEY AT VERY CONCESSIONARY TERMS.

5. ABU ISMAIL SAID EGYPT HAS IMPLEMENTED VIRTUALLY ALL IMF REQUIREMENTS. DEPSEC SAID HE UNDERSTOOD FROM MINISTER SHAFEI THAT IMF AGREEMENT MAY BE SIGNED IN WEEK OR TWO. AFTER IT IS SIGNED, WE WILL BE ABLE AGAIN APPROACH SAUDIS AND OTHERS TO REQUEST FURTHER ASSISTANCE.

6. IRANIAN AID: DEPSEC THEN DISCUSSED IRANIAN GUARANTEE FOR COMMERCIAL LOANS, NOTING CHASE WILLING TO ORGANIZE CONSORTIUM WHICH WOULD BE PREPARED TO MAKE A MAJOR EXTENSION OF SHORT TERMS LOANS PROVIDED IRANIANS PUT UP GUARANTEE. UP TO THIS TIME, HOWEVER, IRANIANS HAVE NOT AGREED TO GUARANTEE BECAUSE THEY HAVE NOT BEEN APPROACHED DIRECTLY BY EGYPTIANS. ABU ISMAIL SAID THAT INDEED EGYPTIANS HAVE APPROACHED IRANIANS; SPECIFICALLY, CONFIDENTIAL

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VP MUBARAK TALKED TO SHAH DURING HIS RECENT VISIT AND SHAH HAS AGREED TO GUARANTEES. DEPSEC SAID THIS WAS GOOD NEWS AND CHASE MANHATTAN WILL HOPEFULLY BE ABLE TO PUT TOGETHER PROPOSED CONSORTIUM.

7. WHILE PLEASED WITH SHAH'S OFFER, ABU ISMAIL NOTED IT WILL ONLY ENABLE GOE BORROW FOR PERHAPS ONE PERCENT OR SO LESS THAN NORMAL TERMS; WHAT GOE NEEDS IS CONCESSIONAL LOANS.

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ACTION SS-25

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O 021210Z MAY 76

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TO SECSTATE WASHDC NIACT IMMEDIATE 3049

AMEMBASSY NAIROBI NIACT IMMEDIATE

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 5943

EXDIS

C O R R E C T E D C O P Y (ORIGINAL INCOMPLETE)

NAIROBI FOR SECRETARY AND DEPSEC ROBINSON

8. ARAB AID: ABU ISMAIL NOTED THAT LAST YEAR SAUDIS HAD GIVEN EGYPT LAON OF \$600 MILLION AT RATE OF FIVE PERCENT ANNUALLY. THIS MEANS EGYPT MUST PAY \$30 MILLION ANNUAL INTEREST FOR THIS MONEY. EGYPT CANNOT AFFORD THIS. ARABS, ABU ISMAIL SAID, MUST CHANGE THEIR MENTALITY RE AID TO EGYPT. EGYPT IS SAVING THEM FROM CONFRONTATION, AND FROM COMMUNIST THREAT. IF EGYPT BECOMES COMMUNIST, SO WILL THEY. THEY MUST CHANGE THEIR STAND WITH REGARD TO AID TO EGYPT. ABU ISMAIL THEN CITED FACT THAT EGYPT IS SPENDING 35 PERCENT OF ITS NATIONAL INCOME ON MILITARY EXPENDITURES OR ABOUT LE 1300 MILLION PER YEAR. ABU ISMAIL APPEALED TO DEPSEC TO USE ALL PERSUASION TO CHAGNE ARABS MIND. DEPSEC REITERATED THAT, AS SOON AS IMF AGREEMENT IS SIGNED, WE WOULD BE ABLE TO GO BACK TO THOSE WHO HAVE BEEN CONTACTED WITH FURTHER APPEAL WITH AID TO EGYPT.

9. ABU ISMAIL WENT OUT OF HIS WAY TO THANK DEPSEC FOR HIS EFFORTS LAST YEAR ON EGYPT'S BEHALF. FUNDS EGYPT HAD FINALLY GOTTEN FROM ARABS IN 1975, HE APINED, HAD BEEN GREATLY INFLUENCED BY OUR EFFORTS. NOW, IN DESPERATION GOE IS COMING TO US NOT ONLY TO SOLICIT FUNDS FROM EUROPEANS AND JAPANESE, BUT ALSO TO URGE
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ARABS BE MORE GENEROUS. DEPSEC NOTED THAT, WHILE IN HIS NEW POSITION HE WILL NOT BE WORKING SPECIFICALLY ON ECONOMIC PROBLEMS, HE WILL CONTINUE TO DO WHAT HE CAN TO KEEP THE ASSISTANCE PROGRAM MOVING.

10. ABU ISMAIL SAID GOE APPRECIATES US ASSISTANCE, WHICH HE HOPED WOULD BE CONTINUED. US HAS BEEN PRINCIPAL FACTOR IN DEVELOPMENT OF EGYPT. HE SAID WE HAVE GIVEN MORE IN LAST TWO YEARS THAN SOVIETS GAVE IN ECONOMIC ASSISTANCE IN PAST 18 YEARS.

11. IMF: TURNING TO IMF AGREEMENT, ISMAIL SAID THAT WHEN MR. WITTEVEEN HAD BEEN IN CAIRO, THEY HAD TENTATIVELY AGREED EGYPTIANS WOULD IMPLEMENT IMF REQUIREMENTS ON JULY 1. IMF TEAM WHICH IS HERE NOW WAS TO HAVE PREPARED BASIS FOR THESE MEASURES. BUT, ABU ISMAIL SAID, SOME WEEKS AGO HE FOUND PRESIDENT SADAT DESIROUS OF INCREASING COST OF LIVING ALLOWANCE. HE DECIDED TO MOVE FORWARD IN IMPLEMENTATION OF IMF AGREEMENT WITH RESULTANT INCREASES IN PRICES TO COINCIDE WITH ANNOUNCEMENT OF PRESIDENT'S COST OF LIVING INCREASES. BY TIME IMF TEAM ARRIVED, HE HAD ALREADY TAKEN DECISION TO TRANSFER ABOUT LE 445 MILLION WORTH OF IMPORTS TO PARALLEL MARKET. IN THIS WAY, HE HOPED TO STEM FURTHER WAGE INCREASE DEMANDS, WHICH HE FEELS SURE IMPLEMENTATION OF IMF REQUIREMENTS WILL MEAN.

12. ABU CONTENTED IMF IS UNREASONABLE ON SUBJECT OF PARALLEL MARKET. AFTER IT HAD BEEN AGREED WHAT COMMODITIES WOULD BE TRANSFERRED TO PARALLEL MARKET, IMF HAD COME BACK AND ASKED FOR MORE GOODS TO BE ADDED TO PARALLEL MARKET. ABU ISMAIL SAID THIS MAY NOT BE POSSIBLE. THOSE COMMODITIES WHICH WILL NOT PASS THROUGH PARALLEL MARKET WILL BE WHEAT, MEDICINES, RAW MATERIALS FOR "POPULAR ARTICLES," FERTILIZER, INSECTICIDES, MILK FOR BABIES, AND EQUIPMENT FOR AGRICULTURAL PURPOSES. THESE ITEMS ARE ESSENTIAL TO KEEP PRICE LEVELS REASONABLE. ABU ISMAIL SAID THAT WITH IMPLEMENTATION OF THESE MEASURES, A TOTAL OF 60 PERCENT OF IMPORTS WILL NOW BE FINANCED BY PARALLEL MARKET, LEAVING ONLY 40 PERCENT AT OFFICIAL RATE.

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13. FOREIGN INVESTMENT: DEPSEC ASKED ABOUT FOREIGN INVESTMENT, NOTING THAT RATE AT WHICH INVESTMENTS ENTERED AND LEFT EGYPT IS CAUSING US INVESTORS SOME PROBLEMS. ABU ISMAIL SAID THAT ALL CAPITAL EQUIPMENT MAY BE IMPORTED THROUGH THE PARALLEL MARKET. HE ALSO NOTED THAT FUNDS COMING INTO EGYPT FOR PROJECTS WHICH WILL

GENERATE HARD CURRENCY AS RESULT OF EXPERTS NEED NOT REALLY ENTER ECONOMY. INSTEAD THEY COULD BE KEPT IN DOLLAR ACCOUNTS. PROCEEDS FROM EXPORTED ITEMS, LIKEWISE COULD BE KEPT IN DOLLAR ACCOUNTS, AND THEREFORE PROFIT COULD BE TRANSFERRED FROM PROCEEDS WITHOUT ANY NEED TO WORRY ABOUT OFFICIAL OR PARALLEL MARKETS. DEPSEC STRESSED IMPORTANCE OF CREATING A GOOD PRIVATE INVESTMENT CLIMATE. IN THIS CONNECTION, HE NOTED SIGNING OF PRIVATE CLAIMS AGREEMENT AND SAID THIS SHOULD HELP TO IMPROVE CLIMATE.

14. TWA/PANAM HOLDINGS: DEPSEC SAID THAT WHILE WE REALIZE CONSTRAINTS ON FOREIGN EXCHANGE, ONE THING WE REQUIRE IS EQUAL TREATMENT FOR AMERICAN COMPANIES. IN THIS CONNECTION, PANAM AND TWA WERE IN NEED OF TRANSFERRING THEIR EGYPTIAN POUND HOLDINGS AT OFFICIAL RATE. ABU ISMAIL SAID THAT, STARTING FROM THE FIRST OF MAY COMPANIES WOULD BE FREE TO TRANSFER THEIR PROFITS THROUGH THE PARALLEL MARKET BECAUSE OF INCREASE IN FARES OF 12.5 PERCENT WHICH HAD BEEN AGREED TO BY IATA. HE SAID THAT THIS PRICE HAD BEEN AGREED BY ALL IATA MEMBERS. ACCORDING TO HIS CALCULATIONS, IT IS SUFFICIENT TO RECOVER LOSSES RESULTING FROM TRANSFER THROUGH PARALLEL MARKET. REGARDING ARREARS, ABU ISMAIL SAID HE IS CURRENTLY HAVING MEETINGS WITH VARIOUS AIRLINES TO COME TO AGREEMENT ON TRANSFER OF ARREARS. AMBASSADOR SAID THAT PRINCIPLE OF EQUAL TREATMENT IS VERY IMPORTANT. HE NOTED THAT LUFTHANSA HAD BEEN ALLOWED TO TRANSFER LE 2 MILLION WORTH OF ITS PROFITS JUST PRIOR TO PRESIDENT SADAT'S TRIP TO GERMANY. ABU ISMAIL SAID THIS WAS NOT CASE, THAT LUFTHANSA HAD TRANSFERRED ONLY LE 300,000; HE INSTRUCTED DR. SARRAF TO GIVE A COPY OF TRANSFER LETTER TO AMBASSADOR. ABU ISMAIL ASSURED DEPSEC THAT ALL COMPANIES WOULD RECEIVE EQUAL

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TREATMENT AND THAT COMPANIES WOULD SUSTAIN NO LOSS AS RESULT OF TRANSFER THROUGH THE PARALLEL MARKET.

15. AMBASSADOR ASKED IF WE COULD ASSURE AIRLINES THAT THERE WILL BE NO LOSS FOR AMERICAN COMPANIES IN SUCH TRANSFER. BOTH MINFINABU ISMAIL AND UNDERSEC SARRAF ASSURED AMBASSADOR THAT COMPANIES WOULD INCUR NO LOSS. ASKED IF AMBASSADOR COULD COME BACK TO THEM IF COMPANIES COMPLAINED OF LOSS. THEY AGREED THAT HE COULD DO SO.

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